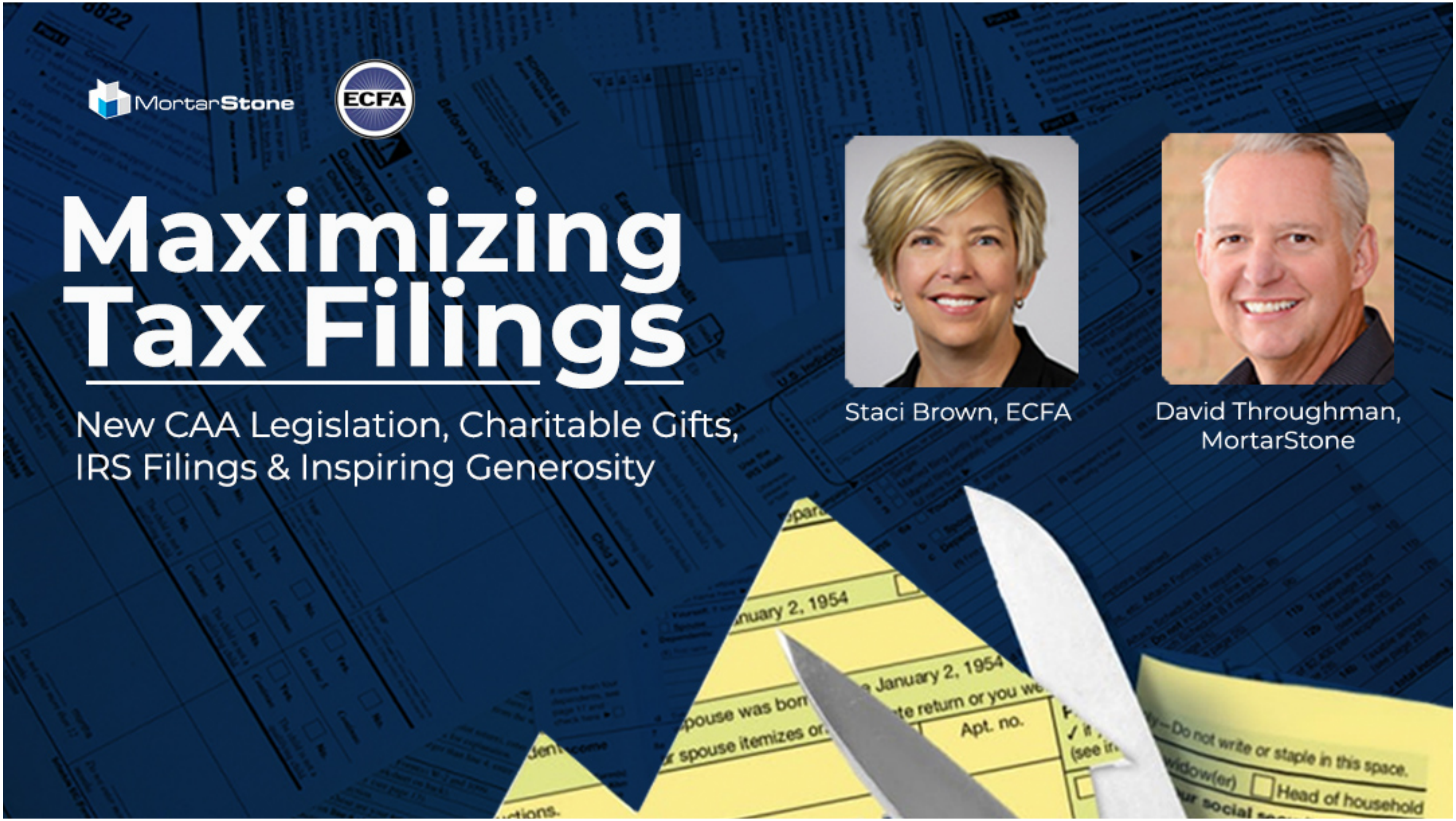
MortarStone
ECFA
Maximizing Tax Filings
New CAA Legislation, Charitable Gifts, IRS Filings & Inspiring Generosity
Staci Brown, ECFA
David Throughman, MortarStone

Presenters

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  ECFA Compliance Team Lead

- **David Thoroughman**
  MortarStone CEO

Consolidated Appropriations Act (CAA) – *What Is It?*

- CAA signed into law in December 2020 (includes many subsets of Acts all combined into the CAA)
- $2.3 trillion spending bill
- $900 billion of which is for COVID-19 relief, economic stimulus and tax provisions
- $284.45 billion in PPP loan funding
- Includes significant modifications to and extensions of PPP loans and the Employee Retention Credit (ERC)

Paycheck Protection Program (PPP) – *How did it change?*

- Under CAA there are effectively two PPP loan programs
- First Draw loans (PPP1) and Second Draw loans (PPP2)
- Eligibility and limits are different for PPP1 and PPP2
- Permissible use of funds & forgivable expenses are same for PPP1 and PPP2
- Application period open until March 31, 2021 (or until funds run out)

First Draw – PPP1 Loan Eligibility

- Available to those who did not receive PPP loan in original CARES Act
- Can employ no more than 500 employees (include foreign affiliates, regardless of citizenship)
- Loan amount = 2.5x average monthly payroll, not to exceed $10 million
- Use 2019 or 2020 payroll data for average monthly payroll calculation
- No reduction in revenue requirement
- Seasonal Employers
  - Expands period during with they can calculate average monthly payroll costs to any 12-week period beginning Feb 15, 2019 and ending Feb 15, 2020
  - Can apply for an increase to existing PPP loan if this new calculation permits larger loan than originally received

First Draw – PPP1 Loan Eligibility, cont'd.

- Expands eligibility to certain 501(c)(6) organizations (with some limitations)
- Borrowers who previously returned or did not accept all or part of their original PPP loan may reapply for the max amount applicable under new rules
- Still required to make good faith certification about current economic uncertainty making loan necessary to support ongoing operations
- Maturity – 2 years if loan made before 6/5/20, 5 years if loan made after 6/5/20
- New loan application Form 2483

Second Draw – PPP2 Loan Eligibility

- Only available to those who received first draw PPP loans, and who have utilized all of PPP1 funds on or before the disbursement date of PPP2 loan
- Can employ no more than 300 employees (include foreign affiliates, regardless of citizenship)
- Loan amount = 2.5 times average monthly payroll in the year prior to the loan or the calendar year 2019 or 2020, not to exceed $2 million
- Must be able to demonstrate a 25% reduction in gross receipts in any completed calendar quarter of 2020 and its comparable 2019 quarter (may use full year comp of 2020 vs 2019 for simplicity)

Second Draw – PPP2 Loan Eligibility – cont'd.

- Gross receipts is as defined by IRC section 6033 (ignores COGS, cost basis, rental expenses and fundraising expenses); so far, it does seem that donor restricted gifts or pledges as well as GIK should be included in gross receipts
- Maturity – 5 years
- PPP1 loan forgiveness is not included in gross receipts amount
- Loan Form 2483-SD

PPP Loan Forgiveness (same for all PPP loans)

- 60% of loan funds must be used on payroll costs
- Can be used for mortgage interest, rent and various utilities
- CAA expands allowable and forgivable expenses to also include:
  - Group life, dental, vision and disability
  - Covered operations, property damage costs, supplier costs, worker protection expenses
  - The above expenses are in addition to original expenses allowed under CARES Act
  - These expanded forgivable expenses apply to those who received PPP loans under original CARES Act, unless the loan has already been forgiven
  - Loan forgiveness “covered period” is now flexible – begins on date loan is disbursed and ends on a date selected by the borrower between the 8th week and 24th week following loan disbursement

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PPP Loan Forgiveness (same for all PPP loans) – cont'd.

- Loan <= $150,000 - streamlined loan forgiveness process (one page form, no documentation required, only required to list # of ee's at start and at end and estimate the amount spent on payroll costs)
- CARES Act provision that required PPP loan forgiveness to be reduced by the amount of any "EIDL advance" was repealed retroactively
  - Those denied full forgiveness because of EIDL advance should expect SBA to automatically remit this amount to their lender
- Loans $2 million or more - Loan Necessity Questionnaire will likely be sent to borrowers
  - The questionnaire. Is used by the SBA to assess the borrower's certification made on loan application, and should be completed and returned within 10 days of receipt
  - See Small Business Administration list of FAQs related to PPP

Employee Retention Credit

- CARES Act did not allow an employer to obtain a PPP loan and receive the Employer Retention Credit
- CAA retroactively repealed this prohibition; PPP borrowers are now also eligible for the ERC; CAA extends the ERC through first two quarters of 2021
- PPP loan recipients in 2020 may now claim the credit for 2020 quarters
- May not claim the credit for wages that were paid with PPP loan proceeds
- May claim the credit retroactively (awaiting guidance on mechanics of this, speak to your payroll provider)
- This is a credit to payroll taxes – since minister's wages are not FICA type wages, they are not qualified wages for ERC purposes

Employee Retention Credit – cont'd.

- *For period of March 13, 2020 through December 31, 2020:*
  - Credit is 50% of qualified wages, with annual cap of $5,000 per employee
  - 100 or fewer full-time employees – eligible for credit for every employee, regardless of whether they were able to return to work or not during the period
  - 100 or more full-time employees – eligible for the credit for only those employees who were not able to provide services during the period
  - Had a full or partial suspension of services caused by governmental shut-down order during the period, OR 50% decline in gross receipts from same quarter in 2019

Employee Retention Credit – cont'd.

- *For period of January 1, 2021 through June 30, 2021:*
  - Credit is 70% of qualified wages, with annual cap of $7,000 per employee per quarter
  - 500 or fewer full-time employees – eligible for credit for every employee, regardless of whether they were able to return to work or not during the period
  - 500 or more full-time employees – eligible for the credit for only those employees who were not able to provide services during the period
  - Beginning January 1, 2021 had a full or partial suspension of services caused by governmental shut-down order during the period, OR 20% decline in gross receipts from same quarter in 2019
- See Internal Revenue Service list of FAQs related to the ERC

Other provisions of the CAA

- Paid Sick Leave Credit & Paid Family Leave Credit:
  - Extended availability of tax credits for eligible employers for emergency paid sick leave and family leave taken through Mar 31, 2021 (previously only available through Dec 31, 2020)
  - Only extended the period for which credits are available from Apr 1, 2020 to March 31, 2021 – did not create a new period in 2021
- Employers can now defer payment of employee portion of social security tax until the end of 2021 for tax withheld on wages paid Sept 2020 through Dec 2020
- See Internal Revenue Service list of FAQs related to these credits

Important Charitable gift updates

- CARES Act allowed a $300 above-the-line charitable deduction for cash gifts made by non-itemizers during 2020 (this limit is “per return”, such that married individuals filing jointly are limited to a single $300 deduction)
- CAA extends this deduction to cash gifts made during 2021 and increases the deduction amount to a “per taxpayer” limit such that married individuals filing joint return can claim up to $600 (all other taxpayer limit remains at $300)
- Does not apply to gifts to donor-advised funds and private foundations
- CARES act allowed for increased limits on deductible charitable contribution amounts made during 2020; the CAA extends these to gifts made during 2021:
  - Individuals – can take charitable deduction up to 100% of AGI
  - Corporations – can take charitable deduction up to 25% of pre-tax income

Other considerations:

- Aside from tax benefits, important to create healthy culture of generosity
- A discipleship centric approach creates a different type of donor – one that is likely less volatile during difficult times
- As a church, model generosity by being generous as an organization
- Make giving easy – leverage technology
- Acknowledge and thank first time givers
- Send quarterly giving statements to have an opportunity to reinforce the vision
- Use the offering moment in the service to engage givers
- Build trust with donors by becoming ECFA accredited – this tells donors that you care about transparency and integrity in how you raise and spend money

It All Starts with a Gift Plan

- Gift planning is most popular when asset classes are high (e.g. stocks, real estate, etc.) and taxes are heading higher.

- Sound familiar?
  - **It IS the current environment**.

What Do You Need to Prepare for and How Do You Teach Your Givers?

- **Minimizing taxes and maximizing self-directed charitable giving** is in essence stewardship 101.

- There is a secular or world view and a Kingdom view.
  - Who is teaching your givers?

- The church needs to be at the forefront of teaching good strategies that perpetuate generosity

Three Things Every Church Leaders Should Consider…

- A Case for Support
- Develop Theology on Advancement
  - It's Discipleship Not Fundraising
- Have Certification from the ECFA
  - Encourage Trust and Transparency

Teach / Lead Events to Educate Givers

- What to give?
  - asset classes are not equal
- How to Give?
  - gift vehicles
- When to give?
  - life events or 'triggers'

QUESTIONS?

- **Gift Planning Assistance:**

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- ECFA Accreditation: ECFA.org